

TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board
December 14, 2009

ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2010, 2011, 2012, 2013 and 2014

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2010
SUMMARY**

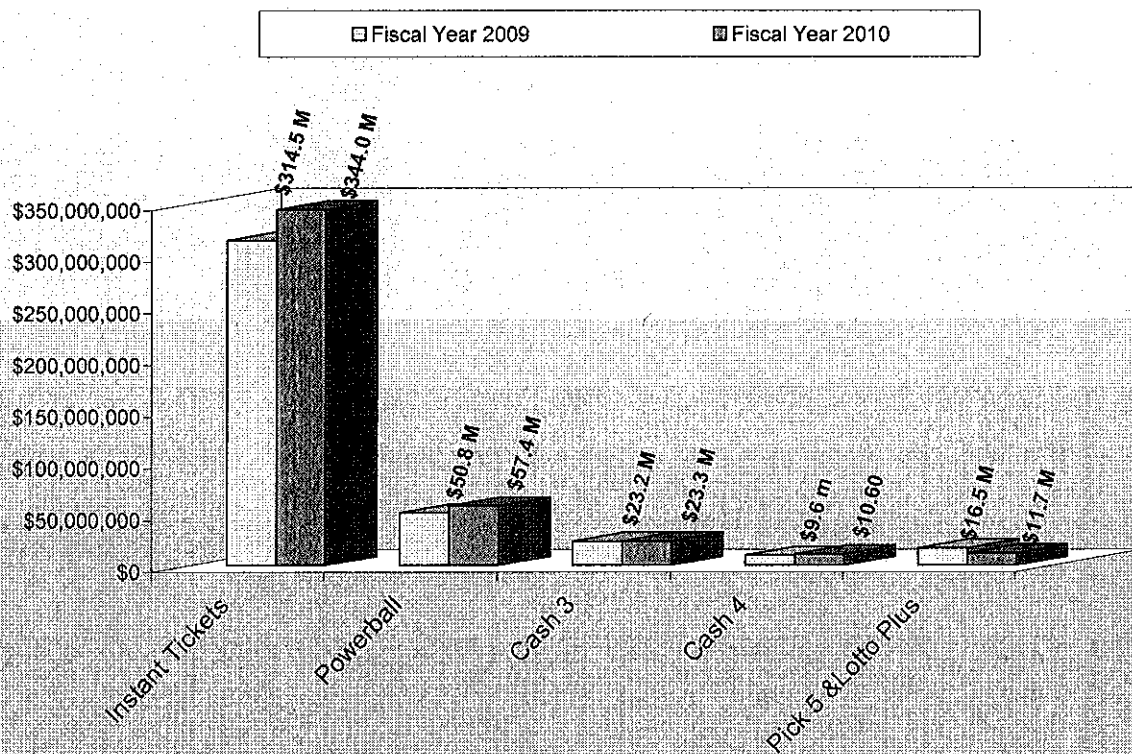
	Actuals as of 11/30/09	Fiscal Year 2010 Approved Budget	Fiscal Years 2010 Low Range	Fiscal Years 2010 High Range
Lottery Proceeds				
Gross Ticket Sales	\$ 447,013,000	\$ 1,117,975,000	\$ 1,091,235,000	\$ 1,127,456,000
Less: Tickets Provided as Prizes	(29,044,000)	(72,335,000)	(71,893,000)	(73,014,000)
Net Ticket Sales	\$ 417,969,000	\$ 1,045,640,000	\$ 1,019,342,000	\$ 1,054,442,000
Other Revenues	1,720,000	4,546,000	4,546,000	4,546,000
Total Proceeds	\$419,689,000	\$1,050,186,000	\$1,023,888,000	\$1,058,988,000
Expenses:				
Direct Expenses:				
Prize Winnings	\$ 261,883,000	\$ 655,777,000	\$ 639,033,000	\$ 660,719,000
Retailer commissions	29,186,000	72,988,000	71,244,000	73,598,000
Vendor Fees	8,849,000	22,071,000	21,515,000	22,257,000
Direct Expenses	\$ 299,918,000	\$ 750,836,000	\$ 731,792,000	\$ 756,574,000
Non Direct Expenses	10,870,000	29,994,000	29,994,000	29,994,000
Total Expenses	\$ 310,788,000	\$ 780,830,000	\$ 761,786,000	\$ 786,568,000
Lottery for Education Proceeds	\$ 108,901,000	\$ 269,356,000	\$ 262,102,000	\$ 272,420,000
After-School Programs Funding	\$ 2,173,000	\$ 13,200,000	\$ 12,750,000	\$ 13,500,000
Total Education Funding	\$ 111,074,000	\$ 282,556,000	\$ 274,852,000	\$ 285,920,000

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEAR ENDING JUNE 30, 2010

	<u>As of 11/30/09</u> <u>(in millions)</u>		<u>As of 11/30/08</u> <u>(in millions)</u>	
INSTANT GAMES	\$ 344.0	77.0 %	\$ 314.5	75.5 %
CASH 3	23.3	5.2 %	23.2	5.7 %
CASH 4	10.6	2.4 %	9.6	2.3 %
PICK 5	4.9	1.0 %	5.7	1.4 %
LOTTO PLUS	6.8	1.5 %	10.8	2.6 %
POWERBALL	57.4	12.9 %	50.8	12.5 %
TOTAL	\$ 447.0		\$ 415.3	
Weekly Average Sales	\$ 20.4		\$ 19.0	

**Sales by Product Comparison
For five months ended November 30, 2008 and 2009**



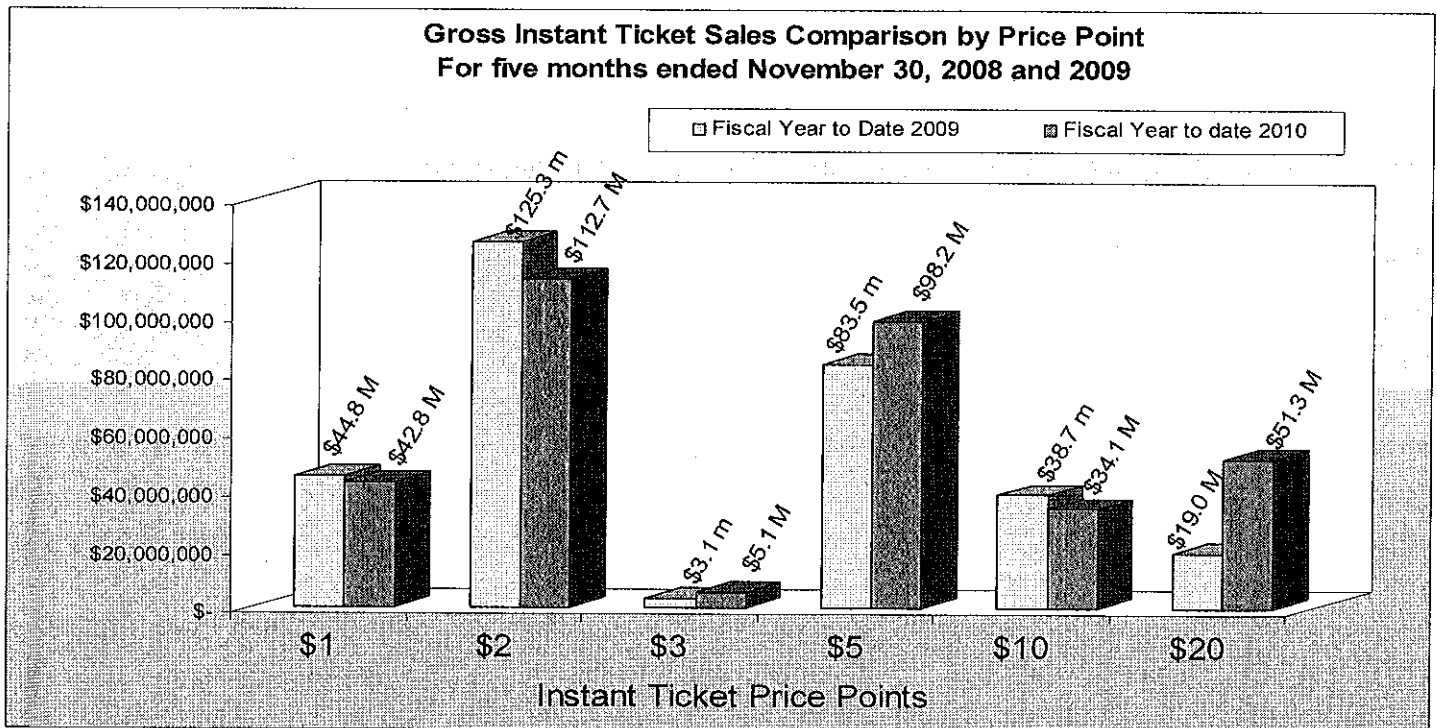
**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2010

Analysis of Current Year Results:

Instant Games

- Instant Ticket Games account for over 77 % of Total Sales.
- Sales year to date have averaged \$15.7 million a week, representing an 8.6 % increase over the same period in Fiscal Year 2009.
- Sales growth is attributable primarily to growth in our \$5 and \$20 price points compared to the prior year.
- TEL launched Tennessee Millionaires Club in the \$20 price point in February 2009. This game has been very successful, and is responsible for most of the growth in this price point.
- Our growth in the \$5 price point is primarily attributable to licensed property games. In Fiscal Year 2010, we launched the TENNESSEE TITANS instant ticket as the football season began, and the MONOPOLY instant ticket with a virtual play component in September. Both of these games have performed very well during this fiscal year.
- TEL's *Play it Again* second chance and litter reduction program continues to be successful in helping to extend the life of an instant game, as well as help reduce litter.
- Instant Games' prize payout currently averages 66.6%, compared to 65.0 % in the prior fiscal year.



**TENNESSEE EDUCATION LOTTERY CORPORATION
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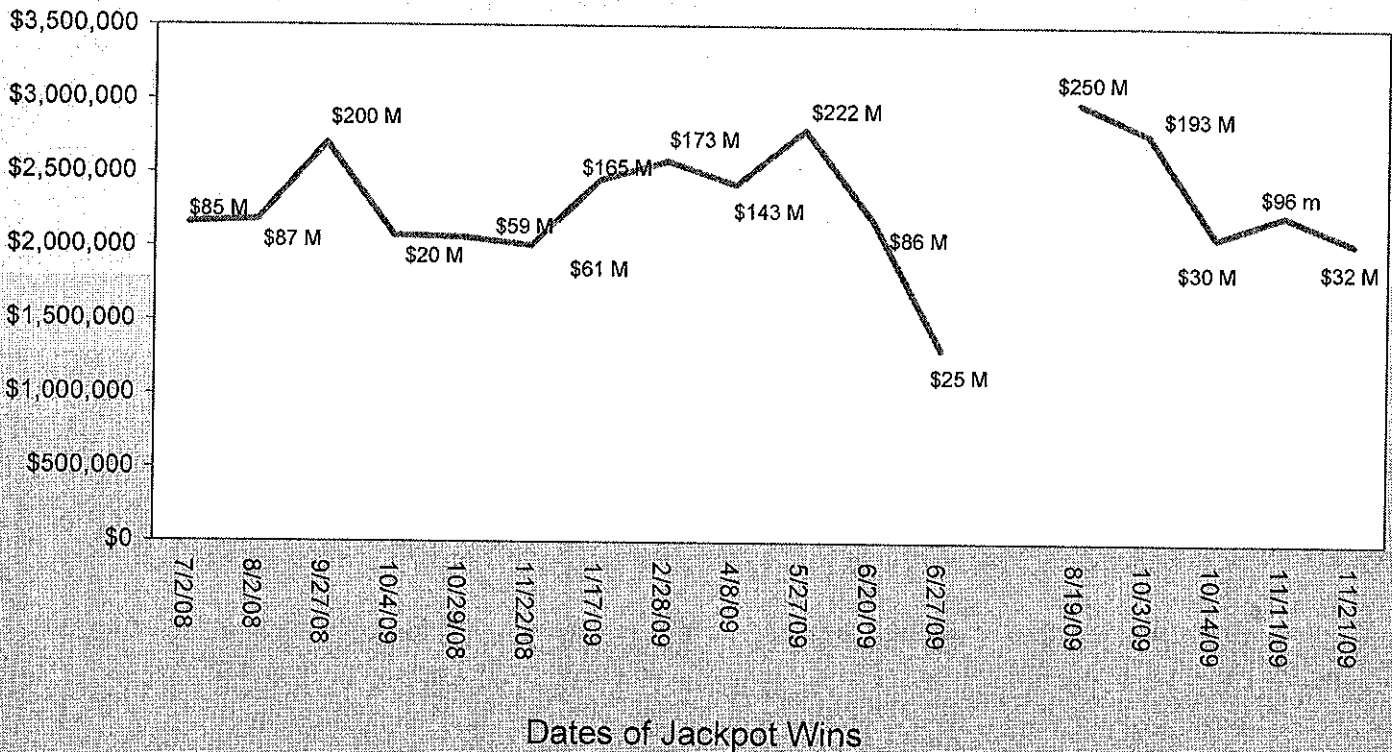
FISCAL YEAR ENDING JUNE 30, 2010

Analysis of Current Year Results:

POWERBALL

- Sales year to date at 11/30/09 were \$2.6million per week compared to \$2.3million per week for the prior period.
- Game sales are directly impacted by the size of jackpots.
- Current game design implemented January 2009 should average three (3) jackpots in \$150-300 million range and one (1) in \$300+ million range within a fiscal year.
- Current game design expects an average jackpot cycle to \$140-150 million.
- As of 11/30/09, we have experienced two (2) jackpot cycles in the \$150-300 million range, which has contributed to the higher sales for the current fiscal year period compared to the prior period.

**Tennessee Education Lottery
Analysis of Average Weekly Revenues for Jackpot Cycle
July 1, 2008 thru November 30, 2009**



**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

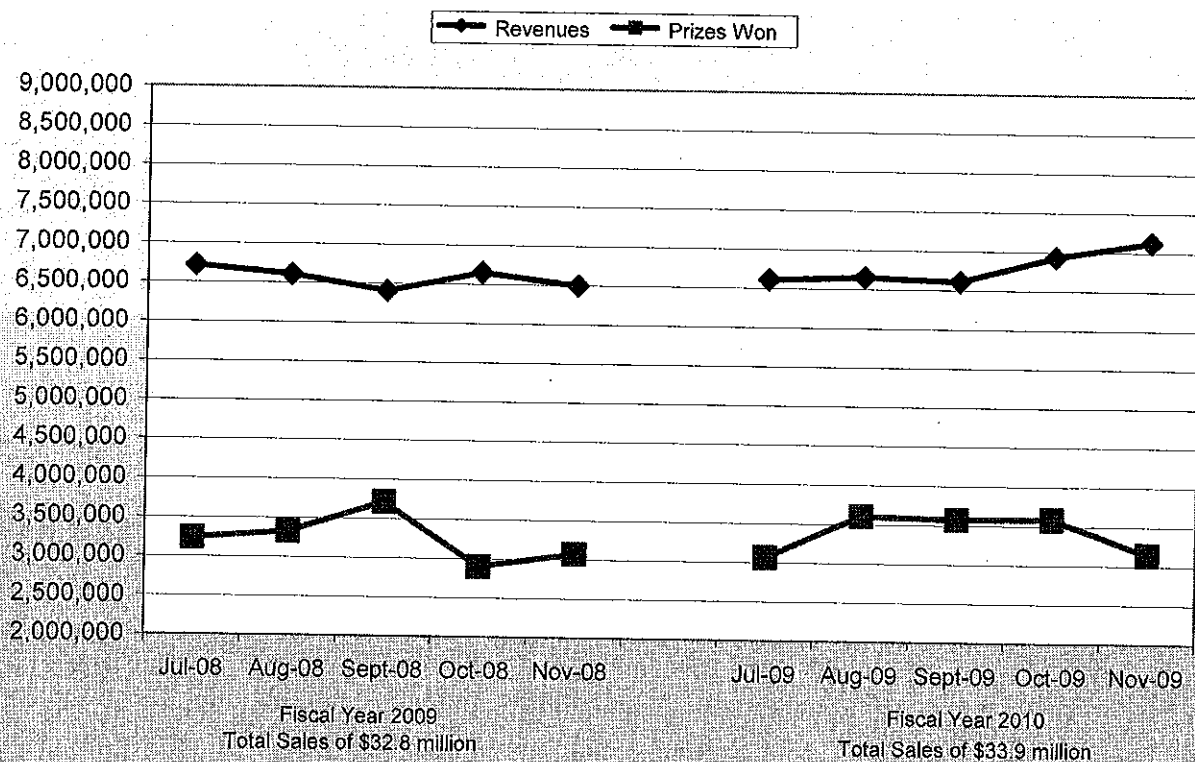
FISCAL YEAR ENDING JUNE 30, 2010

Analysis of Current Year Results:

CASH 3 and CASH 4

- As of 11/30/09, CASH 3 and CASH 4 sales are slightly higher than the prior period.
- The sales increase is attributable to slightly higher prize payouts, along with implementation of an additional play feature, Lucky Sum, introduced December 2008.
- During the current fiscal year, TEL plans to run promotions to introduce CASH 3 and CASH 4 to players of our other online lottery games to generate more interest in the daily drawing games.

**Tennessee Education Lottery
Comparing Cash 3 and Cash 4 Revenues to Prizes Won
July - Nov Fiscal Year 2009 & Fiscal Year 2010**

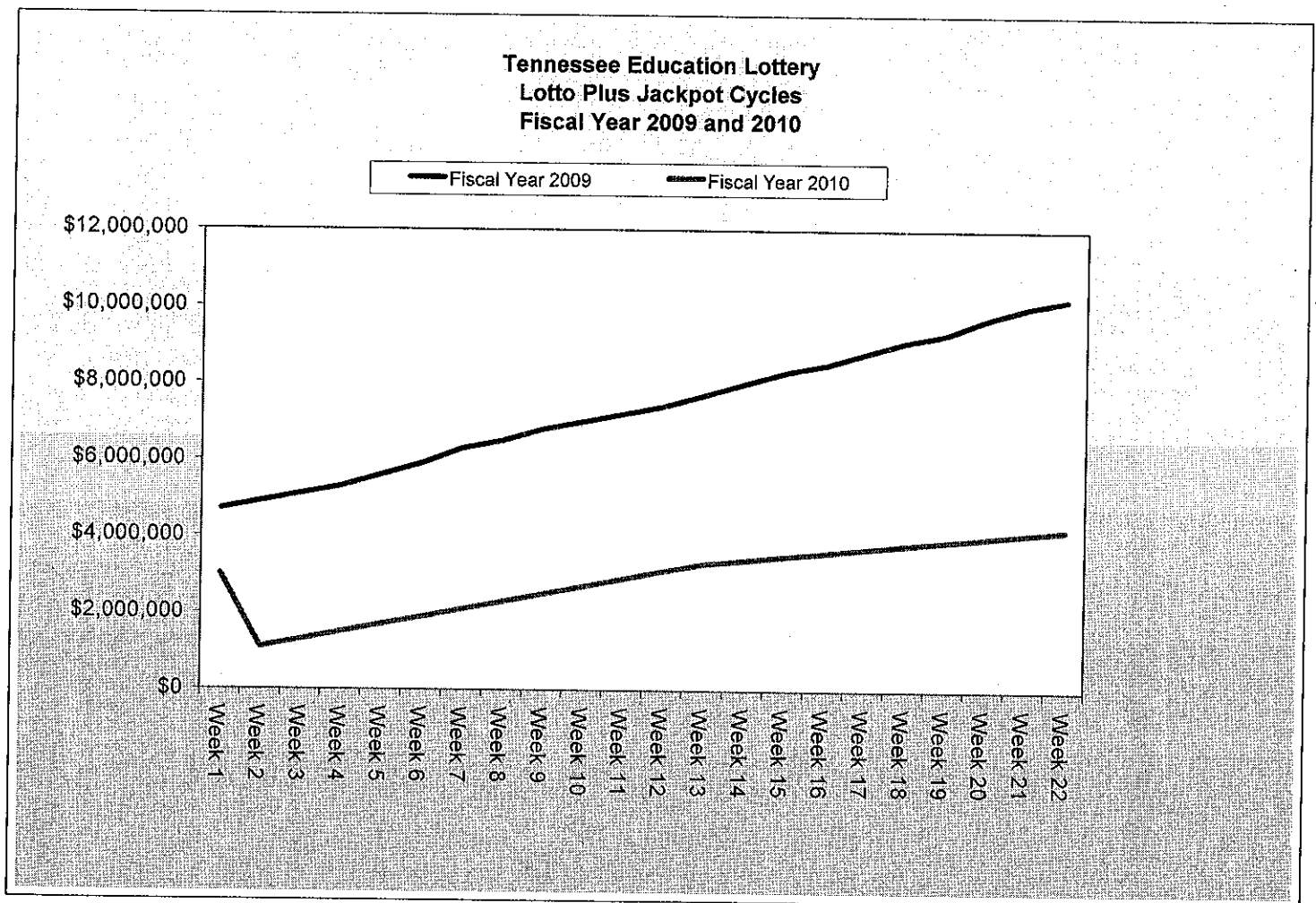


**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2010

Lotto Plus and Pick 5

- Sales for these games are impacted by jackpot size.
- The Lotto Plus and Pick 5 revenues are down compared to the same prior period. This decline is attributed to smaller jackpots within both games, compared to the prior fiscal year.
- In the current fiscal year, Pick 5 jackpots won have averaged \$153,000. In the prior year the average jackpot won was \$232,000.
- In the prior year, the Lotto Plus jackpot reached a high of \$11.7 million in January 2009. At 11/30/08, the Lotto Plus jackpot was at \$ 10.2 million, compared to \$4.2 million at 11/30/09.
- Lotto Plus Sales at 11/30/08 averaged \$493,000 a week, compared to \$310,000 a week at 11/30/09.



**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2010

Analysis of Current Year Results:

Lottery for Education Proceeds

- \$108.9 million as of 11/30/09
- \$105.2 million as of 11/30/08

After-School Program Proceeds

- \$2.2 million as of 11/30/09 (Additional \$ 1.2 million from October 2010 instant games' closings, to be recognized in January 2010)
- \$5.5 million as of 11/30/08
- Represents actual/realized unclaimed monies
- Significantly impacted by timing of instant game closings, and large online game prizes not claimed

Direct Gaming-Related Expenses

- Aggregate Prize Expense for Instant Games is 67 %.
- Aggregate Prize Expense for Online Games is 51 %.
- Retailer sales commissions are 6.5% of gross sales.
- Gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately 2.3 % on instant tickets and 1.2 % for online games.

Non-Direct Expenses

- Advertising expenses are .7 % of gross sales fiscal year to date.
- Other Gaming expenses are .4 % of gross sales fiscal year to date.
- Other Operating expenses are 1.4 % of gross sales fiscal year to date.

**TENNESSEE EDUCATION LOTTERY CORPORATION
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FISCAL YEAR ENDING JUNE 30, 2010

	2010 Low Range <u>(in millions)</u>	2010 High Range <u>(in millions)</u>	2009 Fiscal Year <u>(in millions)</u>
INSTANT GAMES	\$ 848	\$ 860	\$ 841
Weekly Average Sales	\$ 16.3	\$ 16.5	\$ 16.1

Factors Impacting Projections:

- TEL's instant ticket increase is based on average expected growth of 2 %.
- TEL's current instant game strategy includes the continued launch of higher price point and licensed property games, which has helped fuel our current year growth to date.
- To support the higher price point games, the instant game prize payout % is projected to increase to 67% for FY2010, compared to the 66.1 % in the prior year.
- TEL is planning to implement an improved ***Play It Again*** website as part of an enhanced lottery website initiative. This initiative should help improve the instant ticket brand awareness with our players that visit our website on a regular basis.

	2010 Low Range <u>(in millions)</u>	2010 High Range <u>(in millions)</u>	2009 Fiscal Year <u>(in millions)</u>
ONLINE GAMES	\$ 246	\$ 268	\$ 246
Weekly Average Sales	\$ 4.7	\$ 5.1	\$ 4.7

Factors Impacting Projections:

- POWERBALL sales are projected to be \$140 - \$150 million in FY2010. TEL will need to experience at least one (1) jackpot cycle of \$300+ million to reach the projected revenues for this game.
- CASH 3 and CASH 4 sales are projected at \$76 - \$81 million in FY2010. The combined payout for the games is budgeted at approximately 51 %.
- LOTTO PLUS and PICK 5 sales are projected at \$18 - \$22 million in FY2010. The TEL plans to end LOTTO PLUS in early calendar year 2010 and launch the MEGA MILLIONS game.

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FISCAL YEAR ENDING JUNE 30, 2010

- MEGA MILLIONS is a multi-jurisdictional game currently offered in 12 jurisdictions. The game has play features similar to POWERBALL, and is expected to produce large, multi-million jackpots similar to POWERBALL.
- Pursuant to an agreement reached between POWERBALL jurisdictions and the 12 MEGA MILLIONS jurisdictions, the TEL will be able to offer this game in Tennessee in early calendar year 2010.
- Preliminary sales estimates indicate the game can produce between \$25 and \$35 million in incremental online games' gross revenues on an annualized basis. The incremental growth is contingent on the level of expected cannibalization of POWERBALL sales, the elimination of Lotto Plus and the potential impact on PICK 5 sales.
- FY2010 estimated online games' sales include expected incremental amounts between \$12 and \$15 million for five (5) months in this fiscal year.

Direct Gaming-Related Expenses

- Aggregate Prize Expense for Instant Games estimated at **67.0%**.
- Aggregate Prize Expense for Online Games estimated at **50.1%**.
- Retailer sales commissions are **6.5%** of gross sales.
- Gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately **2.3%** on instant tickets and **1.2%** for online games.

Non-Direct Expenses

- Advertising is estimated at **\$ 10.6 million**, or **1.0%** of estimated gross sales
- Other Gaming is estimated at **\$ 3.0 million**, or **0.3%** of estimated gross sales
- General and Administrative is estimated at **\$ 16.3 million**, or **1.5%** of estimated gross sales

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

FISCAL YEARS ENDING JUNE 30, 2011, 2012, 2013 and 2014

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Gross Revenues	\$1,116 - \$1,153 Million	\$1,144 - \$1,182 Million	\$1,172 - \$1,211 Million	\$1,201 - \$1,241 Million
Total Lottery Proceeds	\$1,120 - \$1,157 Million	\$1,148 - \$1,186 Million	\$1,176 - \$1,215 Million	\$1,205 - \$1,245 Million
Lottery for Education Proceeds	\$264 - \$274 Million	\$266 - \$276 Million	\$269 - \$279 Million	\$272 - \$282 Million
After-School Programs Funding	\$13 - \$14 Million	\$13 - \$14 Million	\$14 - \$15 Million	\$14 - \$15 Million
Total Education Funding	\$277 - \$288 Million	\$279 - \$290 Million	\$283 - \$294 Million	\$286 - \$297 Million

TEL's average expected growth in Fiscal Year 2010 is approximately 3% in gross sales and 2% in net lottery proceeds, resulting primarily from instant ticket growth and larger Powerball jackpots.

TEL's four-year sales growth is expected to average 3% through FY2010. The four-year proceeds growth is expected to average 1% through FY2010.

Sales growth for the lottery industry over the prior three (3) fiscal years was 1.2%, and over the prior five (5) fiscal years was 3.8%. Beneficiary funding for the lottery industry experienced no growth over the last three (3) fiscal years, and approximately 2% growth over the last five (5) years.

Based on TEL's and the industry year-over-year growth in the most recent fiscal years, we recommend only modest annual sales and net proceeds growth in Fiscal Years 2011, 2012, 2013 and 2104 of **3% and 1%**, respectively.

After School Proceeds

After School Proceeds are based upon historical prize claim experience for Tennessee. The average expected unclaimed prizes represent 2 % of projected available prizes.